NATIONAL ENERGY REGULATOR OF SOUTH AFRICA

Decision and Reasons for Decision (RfD)

In the matter regarding the

Municipal Tariff Applications for the 2026/27 Financial Year

By

Blouberg Local Municipality

THE DECISION

1. At its meeting held on 30 April 2026, the Regulator Executive Committee (REC) considered the Blouberg Tariff Application. Based on the facts and evidence presented, the REC approved the tariff increases for the 2026/27 financial year set out in section 8(Page 19) below.

2. Based on the available information and the analysis performed thus far, the Regulator Executive Committee decided to:
   2.1. approve the tariffs that are based on the Cost of Supply (COS) Study as recommended in the tariff analysis section for implementation by the municipality with effect from 1 July 2026;

   2.2. note the COS study submitted by the municipality;

   2.3. that the municipality must submit a report accounting for all the costs that have been noted in its COS study to enable the National Energy Regulator of South Africa to perform its independent verification/audit process by 31 January 2027; and

   2.4. that the municipality must submit a quarterly smart efficiency plan with improvement measures identified in reducing high energy losses and submit by 30 September 2026

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ABBREVIATIONS

COS	Cost of Supply
D-form	Distribution form
EPP	Electricity Pricing Policy
ERA	Electricity Regulation Act, 2006
ERTSA	Eskom's Retail Tariff Structural Adjustments
FBE	Free Basic Electricity
FY	Financial Year
IBT	Inclining Block Tariff
IPP	Independent Power Producer
MFMA	Municipal Finance Management Act
NERA	National Electricity Regulation Act
NERSA	National Energy Regulator of South Africa
OPEX	Operating Expenditure
PoDs	Point of Deliveries
REC	Regulatory Executive Committee
RfD	Reasons for Decision
RTP	Retail Tariff Plan
SEA	Sustainable Energy Africa
ToU	Time of Use

1. INTRODUCTION

1.1. The National Energy Regulator of South Africa (NERSA) receives and considers tariff applications yearly, in accordance with the mandate of the Energy Regulator to regulate prices and tariffs. Municipal tariffs must be approved by the Energy Regulator to be implemented on 1 July of each financial year.

1.2. Blouberg is situated in the Limpopo province. The municipality is made up mostly of domestic customers, who consume 89,72% of the total electricity sales. The municipality provides its indigent customers with 50kWh of Free Basic Electricity (FBE) per month. The municipality further reports that it maintains an indigent register. The details regarding customer statistics are highlighted in Table 1below.

Table 1: Customer Statistics (Data obtained from the latest D-forms – 2024/25)

Customer categories	***MWh***	***%MWh***	***Customer numbers***
Domestic (pre-paid)	52 000	89.72	17 567
Commercial (conventional)	9 909	10.28	154
Total	**61 909**	**100**	**17 721**
Free Basic Electricity (FBE)	2 500	4,81	2 696

1.3. NERSA received Blouberg's tariff application together with its reviewed cost of Supply (COS) on 25 March 2026. The reason for revising the study was to cater for Eskom's Retail Tariff Plan (RTP) approved by the Energy Regulator in the FY 2025/26.

1.4. Blouberg implemented a 13,70% average price increase in the 2025/26FY and is applying for an average price increase of 15,00% for the 2026/27FY, and there are no structural changes proposed in the current application.

1.5. In accordance with NERSA requirements, the tariff application includes confirmation that the proposed tariffs have been approved by the municipal council and have undergone customer consultation.

1.6. For this application, the municipality has indicated that its council meeting took place on 30 January 2026, and that the council resolution as well as proof of customer consultation was submitted to NERSA on 25 March 2026.

1.7. NERSA followed the notice and comment consultation process. Blouberg's tariff application was published on the NERSA website on 30 March 2026, on social media platforms and national and local newspapers to solicit written comments from affected parties.

1.8. NERSA's decision was made on 30 April 2026, considering the written comments received from the affected stakeholders and the analysis it performed.

2. LEGAL AND REGULATORY FRAMEWORK

2.1. Background

2.1.1. The approval of municipal electricity tariffs constitutes a core regulatory function of the Energy Regulator and must be exercised in accordance with the applicable legislative framework, national policy directives and court orders. The principal legal instruments governing the exercise of this regulatory authority include the National Energy Regulator Act, 2004 (Act No. 40 of 2004) ("NERA"), the Electricity Regulation Act, 2006 (Act No. 4 of 2006) as amended ("ERA"), the Promotion of Administrative Justice Act, 2000 (Act No. 3 of 2000) ("PAJA"), and the Electricity Pricing Policy for the South African Electricity Supply Industry, 2008 ("EPP").

2.1.2. The approval of municipal electricity tariffs follows the Eskom Multi-year Price Determination and Eskom Retail Tariff and Structural Adjustment decision and is undertaken annually in order to align with the municipal budgeting process contemplated in the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) ("MFMA").

2.1.3. In addition, the municipal tariff approval process has recently been the subject of judicial scrutiny in the High Court of South Africa (Gauteng Division, Pretoria) in AfriForum NPC v National Energy Regulator of South Africa and Others (Case No. 2025/137620), which resulted in structural directives governing the timing and conduct of NERSA's tariff approval process.

2.1.4. This section provides the legal and policy context within which the Energy Regulator evaluated and determined the municipal electricity tariff application for the 2026/27 municipal financial year.

2.2. Statutory Mandate of the Energy Regulator

2.2.1. NERSA is established as a juristic person in terms of section 3 of the NERA. In terms of section 4 of the NERA, the Energy Regulator, as the decision-making body, must regulate the electricity industry and execute the functions set out in the ERA. The electricity regulatory mandate of the Energy Regulator is therefore primarily governed by the ERA. Section 3 of the ERA particularly provides that the Energy Regulator is the custodian and enforcer of the national electricity regulatory framework and exercises regulatory authority over activities regulated under the ERA.

2.2.2. In particular:

- Section 4(a)(i) of the ERA provides that the Energy Regulator must consider applications for licences and may issue licences subject to conditions.
- Section 4(a)(ii) of the ERA provides that the Energy Regulator must regulate prices and tariffs.
- Section 14(1)(d) of the ERA authorises the Energy Regulator to impose licence conditions relating to the setting or approval of prices, charges, rates and tariffs charged by licensees.

2.2.3. Municipalities distributing electricity do so under electricity distribution licences issued by the Energy Regulator and are therefore subject to the tariff approval framework established under the ERA.

2.3. Tariff Determination Principles under the ERA

2.3.1. When determining or approving electricity tariffs, the Energy Regulator must apply the principles contained in section 15(1) of the ERA.

2.3.2. Section 15(1) provides that the Energy Regulator:

- must enable an efficient licensee to recover the full cost of the licensed activity;
- must allow for a reasonable return commensurate with the risk of the licensed activity;
- may provide incentives for continued improvement of technical and economic efficiency;
- must avoid undue discrimination between customer categories;
- may permit cross-subsidies of tariffs to certain classes of customers; and
- may have regard to the need to ensure security of supply, diversity of supply and the promotion of renewable energy.

2.3.3. These statutory requirements form the core legal principles guiding the determination of electricity tariffs within the South African electricity supply industry.

2.4. Administrative Law Requirements

2.4.1. The approval of municipal electricity tariffs constitutes administrative action as defined in section 1 of the PAJA. Accordingly, the Energy Regulator must ensure that its tariff determinations are lawful, reasonable and procedurally fair as required by sections 3 and 6 of the PAJA. Procedural fairness requires that affected parties and the public be afforded a reasonable opportunity to make representations before a final decision is taken.

2.4.2. Public participation processes conducted by the Energy Regulator therefore form an essential component of the municipal tariff approval process and are intended to ensure transparency, accountability and fairness in regulatory decision-making.

2.5. **Policy Framework: Electricity Pricing Policy (2008)**

2.5.1. In addition to the statutory framework, the Energy Regulator must have regard to the EPP. The EPP establishes national policy principles for electricity tariff setting, including cost reflectivity, transparency, economic efficiency and equity.

2.5.2. Policy Position 1 of the EPP provides that the revenue requirement for a regulated licensee must be set at a level that covers the full cost of production, including a reasonable risk-adjusted margin or return on appropriate asset values.

2.5.3. Policy Position 2 states that electricity tariffs must reflect the efficient cost of rendering electricity services accurately and that the average level of tariffs must be set to recover the approved revenue requirement.

2.6. **Cost of Supply Studies**

2.6.1. The EPP recognises that cost reflective tariff structures require a sound understanding of the underlying cost drivers associated with electricity distribution.

2.6.2. Paragraph 8.1 of the EPP notes that Cost of Supply methodologies have historically not been consistently applied across the electricity distribution industry.

2.6.3. Policy Position 23 therefore requires electricity distributors to undertake Cost-of-Supply studies at least every five years, or when significant structural changes occur in the customer base or cost structure.

2.6.4. Such studies must be conducted in accordance with the methodology approved by NERSA and must accompany tariff structure applications submitted to the Energy Regulator.

2.7. **Judicial Oversight of the Tariff Approval Process**

2.7.1. The municipal tariff approval process administered by NERSA was the subject of litigation in AfriForum NPC v National Energy Regulator of South Africa and Others (Case No. 2025/137620) before the High Court of South Africa, Gauteng Division, Pretoria.

2.7.2. In its final judgment delivered on 4 December 2025, the Court held that NERSA's public participation process relating to the 2025/2026 municipal tariff approvals did not comply with the procedural requirements of section 4 of PAJA and was therefore unlawful.

2.7.3. However, recognising the potentially disruptive consequences of setting aside tariff determinations already implemented by municipalities, the Court declined to invalidate the tariffs. Instead, to assist in the timeous and lawful approval of municipal tariffs, the Court issued a structural interdict regulating the municipal tariff approval process going forward.

2.7.4. NERSA subsequently launched a variation application which sought to vary the timelines which were set by the Court on 4 December 2025, considering the practical difficulties which arose as it relates to NERSA's compliance with the Court order. The Court, having heard NERSA's application, granted the variation application in respect of the fixed deadlines for the 2026/27 municipal tariff approvals.

2.8. **Court-Directed Timelines**

2.8.1. The timelines below are applicable in respect of the 2026/27 municipal tariff approvals

- written notice of bulk tariffs by 6 March 2026;
- municipal tariff applications to be submitted by 31 March 2026;
- public participation processes to be concluded by 21 April 2026
- the publication of NERSA decisions by 11 May 2026.

2.8.2. Municipal tariff approvals from 2027/28 are to comply with the following timelines:

- written notice of bulk electricity tariffs be communicated by 31 January each year;
- municipal tariff applications be submitted to NERSA by 20 March each year;
- municipal tariff approvals and the tariff reasons for decision document be approved and published by 5 May of each year.

2.9. **Conclusion**

2.9.1. The determination of municipal electricity tariffs by the Energy Regulator must therefore be undertaken within a comprehensive regulatory framework consisting of the NERA, ERA, PAJA, EPP and the binding judicial directives issued by the High Court in AfriForum NPC v NERSA (Case No. 2025/137620).

2.9.2. The reasons that follow in this Reasons for Decision document demonstrate how the Energy Regulator complied with the legislative, policy and judicial framework in determining the municipal electricity tariff for the 2026/2027 municipal financial year.

3. FINANCIAL AND TECHNICAL PERFORMANCE

3.1. In evaluating the financial and technical performance of Blouberg, the assessment relied on the Distribution forms (D-forms) for the 2024/25 financial year submitted as part of the licensee's tariff application. The information contained in the D-forms was verified against the supporting source documents provided by the municipality, including the Trial Balance and Annual Financial Statements. As a result, the data captured in the D-forms is considered reliable for the purposes of the tariff analysis.

Surplus

3.2. Blouberg's electricity business operating deficit improved significantly from a deficit of 70.25% to a deficit of 54.93%:

3.2.1. Despite the improvement, the business remains fundamentally unsustainable. The deficit is driven by the following issues:

a) high operational overheads linked to a scattered network configuration with 16 points of deliveries (PoD's) (long power lines serving 16 villages);

b) the high cost of skills recruitment/retention due to the rural nature of the licensee; and

c) The customer base is mostly households who only pay for what they use (no monthly service fee charged to customers).

3.2.2. This puts the supplier at risk because if people use less power, the licensee loses revenue that can assist in keeping the lights on.

3.2.3. There are no big businesses to cross-subsidise the households and help cover costs incurred for supplying customers.

3.3. These challenges are structural and unlikely to change in the medium term, meaning the licensee remains grant-dependent for survival.

Energy Losses

3.4. The licensee achieved a major reduction in energy loss, bringing the rate down from 31.44% to 16.88%. The municipality submitted a progress report on the reduction of the energy, upon assessment, the observation is that the improvement is attributed to proactive "energy curbing" strategies, specifically:

3.4.1. Analysing purchase pattern reports acted as a detection mechanism to identify non-vending meters. This approach allows for targeted site visits

to uncover bypassing or tampering, enabling immediate disconnection and the recovery of lost revenue through issuing reconnection fee penalties.

3.4.2. Quarterly loss calculations were used to validate the effectiveness of controls; these checks allow the municipality to spot spikes in losses immediately and deploy technicians while the issue is fresh and the revenue losses are still minimal.

3.5. The municipality is commended for this significant achievement and is encouraged to expand its initiatives to reach a single-digit energy loss target.

Table 2: Performance indicators

PERFORMANCE INDICATOR: OBTAINED FROM D-FORMS		
Indicators	***2024/25 FY (Actuals)***	***2023/24 FY (Approved)***
*Percentage surplus: **(%)***	-54,93	*-70,25*
*Energy Losses:**(%)***	16,88	*31,44*

3.6. Based on the above information provided by the D-forms, reasons for the financial position and the progress report on curbing the energy losses, the data show that while technical operations have significantly improved, the municipality's geographic and structural constraints continue to hinder long-term financial stability.

4. DETERMINATION OF BLOUBERG'S TARIFFS BASED ON THE COST OF SUPPLY STUDY

4.1. The process followed in considering and approving Blouberg's tariff application was supported by a cost of supply study.

4.2. Blouberg utilised the COS study model developed by Sustainable Energy Africa (SEA) to determine its revenue requirements for the 2026/27 financial year and to apportion costs required to service each customer's class fairly and equitably. The study follows the NERSA COS framework and uses the latest available audited data, which is based on the 2024/25 financial year.

4.3. Figure 1 below details the five steps considered in the determination of the COS study.

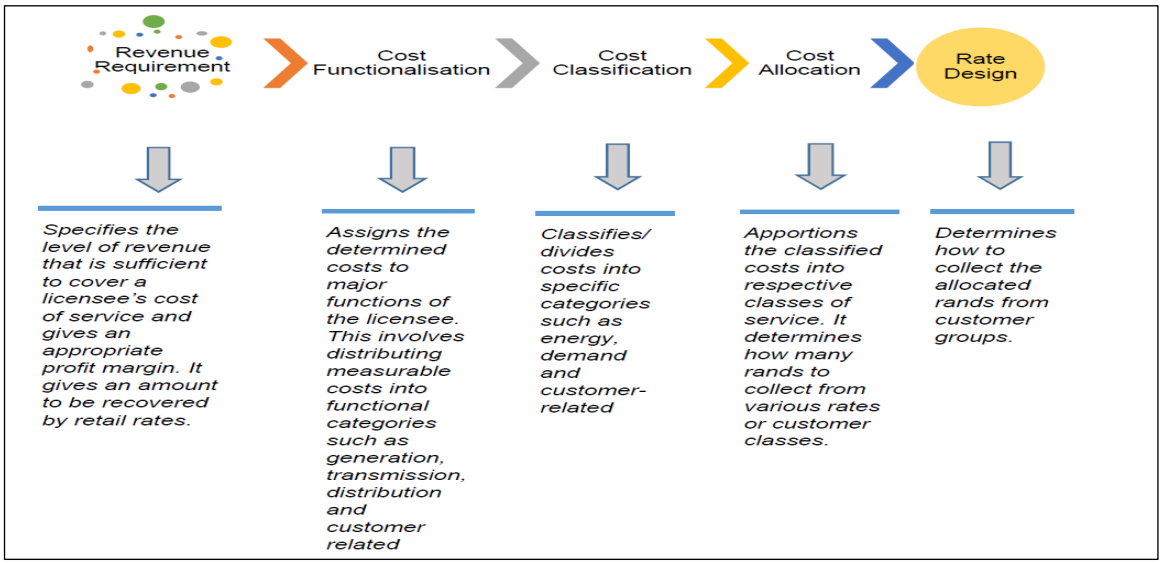


Figure 1: Five steps of COS

The following steps are undertaken to analyse the cost of supply study:

4.4. Revenue Requirement

4.4.1. Table 3 shows the municipality's revenue requirement of R72,8 million, driven mainly by R57,6 million (79%) bulk purchases and R14,8 million (20%) OPEX.

Table 3: Revenue Requirement Components

	Total cost (R)			
Revenue Requirement components	**Wires**	**Retail**	**Total**	**% of Total**
Allowable costs	22 797 296	49 985 790	72 783 086	100%
Energy purchases from Eskom - net of cost of losses	-	57 600 250	57 600 250	79%
Energy purchases from Eskom - cost of losses	7 990 407	-	7 990 407	11%
Other energy purchases	-	-	-	0%
Capital expenditure	-	-	-	0%
Operational expenditure (incl. Depreciation)	14 153 206	610 560	14 763 766	20%
Other revenues	- 1 418 798	- 12 769 183	- 14 187 981	-19%
Surplus	2 072 481	4 544 163	6 616 644	9%
Not allowable costs	996 065	-	996 065	
Cost of losses disallowed	996 065	-	996 065	
TOTAL COSTS	**23 793 361**	**49 985 790**	**73 779 151**	

4.4.2. The efficiency of costs for the 2024/25 financial year has been assessed, as this constitutes the most recent set of actual data. This assessment serves as the baseline for projecting costs for the 2026/27 financial year, applying stated assumptions to determine the revenue requirement for that period.

4.4.3. All expenses included in the revenue requirement have been examined to confirm that they pertain exclusively to the licensee's electricity function. The energy losses above the 10% efficiency threshold are considered to be in management's control. As a result, R996,065 in excess losses has been disallowed to ensure that consumers do not bear the cost of operational technical and non-technical failures.

Bulk purchases

4.4.4. Blouberg submitted an application for bulk purchase expenditure amounting to R57,6 million, representing 79% of total costs. The bulk purchase figures were verified against Eskom invoices for the 2024/25 financial year.

4.4.5. To derive the 2026/27 bulk purchase estimate, the 2025/26 CoS amount was escalated by 9,01%, consistent with the approved Eskom Retail Tariff Structural Adjustments (ERTSA).

4.4.6. The methodology applied by Blouberg in forecasting bulk purchase costs is deemed reasonable given the fact that the SEA tool used by the municipality automatically limits energy losses to 12%. As a result, an amount of R996 065 was also excluded, as it represents a controllable cost that should be managed efficiently.

4.4.7. Therefore, the bulk purchase expenditure has been recommended for approval as submitted.

Operational Expenditure

4.4.8. Blouberg has applied for operational expenditure totalling R14,8 million, representing 20% of overall costs, as reflected in Table 3 above.

4.4.9. The approach adopted by Blouberg in forecasting operational expenditure is considered reasonable, and the amount is recommended for approval as requested. The internal assessment indicated there are inefficient cost components, such as NMD exceedance penalties and interest incurred on Eskom-related debt incurred by the municipality.

Surplus

4.4.10. Blouberg has requested a surplus of R6,6 million, contributing 9% of the total required revenue. This request is recommended for approval for its compliance with the NERSA COS framework.

4.4.11. In recommending a surplus, NERSA relied on section 15(1)(a) of the Electricity Regulation Act, which provides that tariffs must enable an efficient licensee to recover the full cost of its licensed activities, including a reasonable margin or return. In applying this provision, together with the COS methodology, NERSA is required to ensure that the licensee recovers efficiently and prudently incurred costs, including a reasonable return, while preventing excessive compensation.

4.4.12. The decision to approve the revenue requirement as submitted will be applied in the subsequent stages, namely Cost Functionalisation, Cost Classification, Cost Allocation, and Rate Setting. These stages have been verified and confirmed to align with the approved revenue requirement. Further detail on these stages is provided below.

4.5. Cost Functionalisation

4.5.1. The licensee has categorised its revenue requirement of R72,8 million into two primary functional components, namely the **wires business (32%)** and the **retail business (68%)**, in accordance with the NERSA COS framework, as illustrated in Figure 2 below. Upon verification, the allocation of costs to these functional components is found to be consistent with the stated revenue requirement.

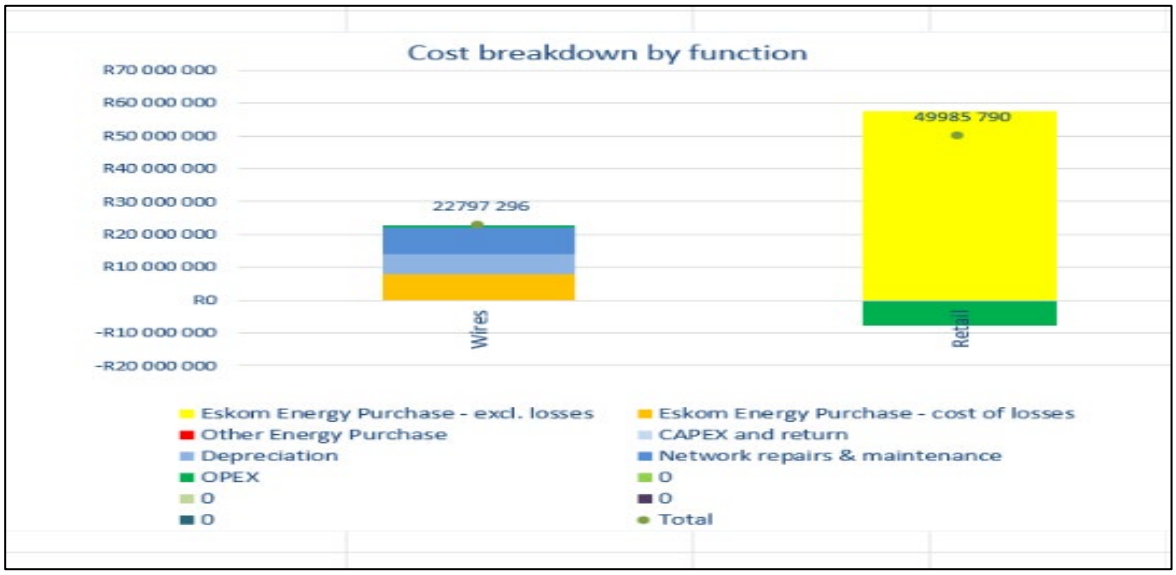


Figure 2 : Cost breakdown by functions

4.5.2. These costs, upon verification, are consistent with the approved revenue requirement. The wire business's major cost driver is network repair and maintenance, whereas the energy purchases represent the primary cost driver within the retail business.

4.6. Cost Classification

4.6.1. The licensee has classified its costs into energy, demand and customer-related cost components, in accordance with the NERSA COS framework. The costs align with revenue requirements and cost functionalisation upon verification.

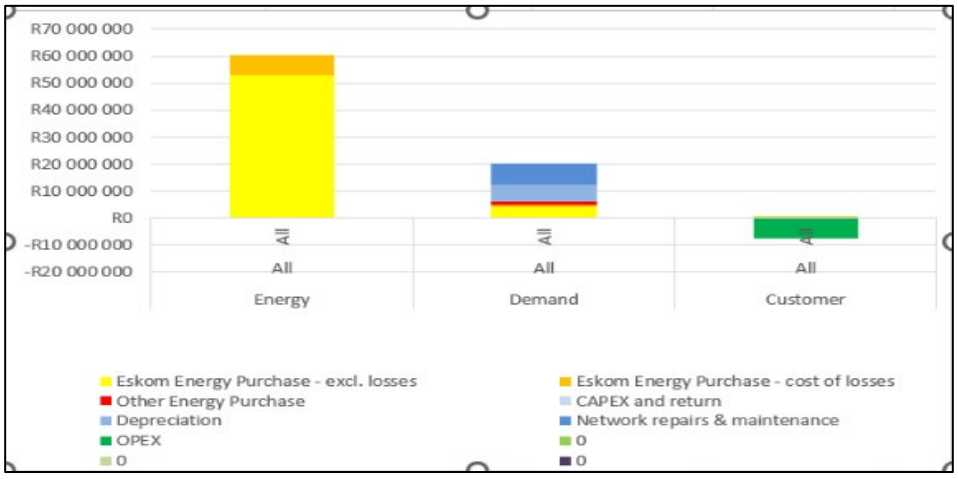


Figure 3*:* Cost breakdown by cost structure (Classification)

4.6.2. Energy purchases constitute energy-driven costs, with the highest expenditure incurred during the summer period under the standard time-of-use structure, largely due to the longer duration of the summer season. Demand-driven costs are similarly concentrated in the summer period. Customer-driven costs are primarily associated with “Other OPEX,” which includes expenses related to the provision of electricity distribution services to customers.

4.7. Cost Allocation

4.7.1. In this step, the licensee’s revenue requirement is allocated across customer categories, in accordance with the NERSA COS framework. Upon verification, the allocation is found to be consistent with the stated revenue requirement and aligned with the principles of cost allocation.

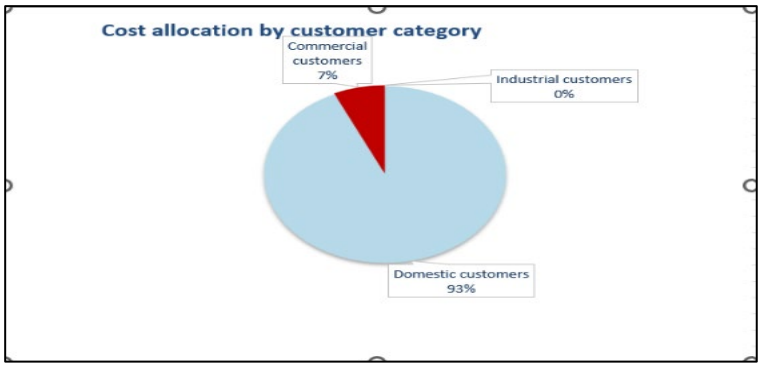


Figure 4: Costs Allocated

4.8. Rate Design

4.8.1. Table 4 below reflects the outcome of the COS study, indicating that certain customer categories require upward adjustments, while others warrant decreases. A comparison between the cost of supply and the revenue generated per tariff category highlights the extent of over- or under-recovery within each category, as illustrated in Table 4 below.

4.8.2. To achieve full cost reflectivity, the municipality would be required to implement differentiated tariff adjustments across customer categories. However, the municipality has adopted a less aggressive approach, opting instead for a uniform tariff increase of 15,00% across all customer categories.

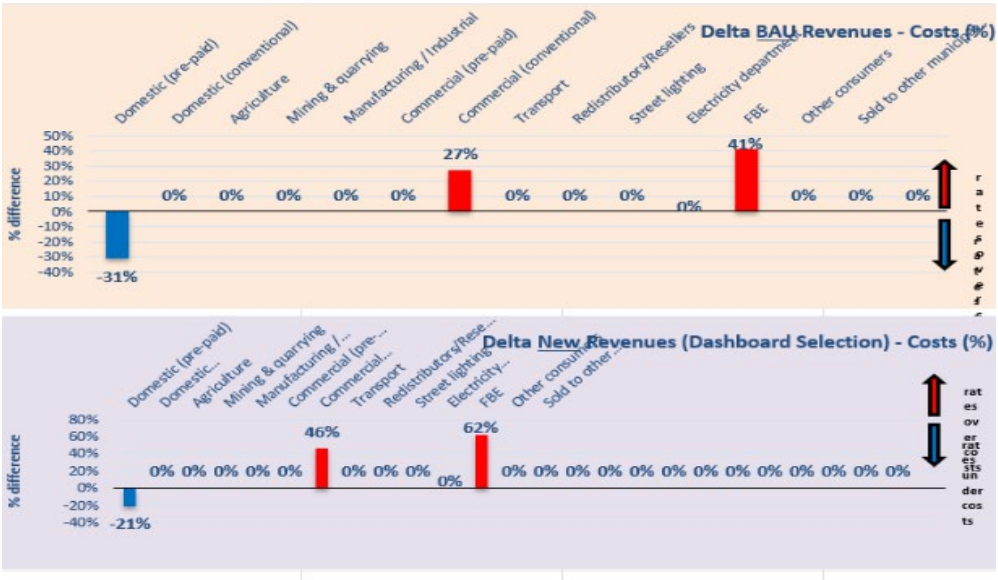


Figure 5: Revenue Recovery by customer category

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2.1 Commercial conventional	FY 2025/26 Approved Tariff	FY 2026/27 Proposed tariff	FY 2026/27 Proposed Tariff	FY 2026/27 Recommended Tariff	Recommended % increase	Analysis and key findings
Basic charge (R/month)	627,29	721,38	15,00%	721,38	15,00%	The municipality has requested a 15% tariff adjustment. This proposal is preferred over a 35% cost-reflective increase because it manages the 'affordability gap, and promotes financial sustainability for the municipality
Energy charge (c/kWh):	382,78	440,20	15,00%	440,20	15,00%	

9. CONFIDENTIALITY

9.1. None.

10. CONCLUSION

10.1. The Energy Regulator, having considered the Blouberg application, supporting information, and applicable legal framework, approves the tariff adjustments as set out in this Reasons for Decision document.

End.